ECONOMIC OUTLOOK 2017

ST. JOHN'S CENSUS METROPOLITAN AREA

JULY 2017

ECONOMY

Economic performance in the St. John's Census Metropolitan Area (CMA) is expected to soften in 2017. Real Gross Domestic Product (GDP) is forecast to decrease by 3.4 per cent in 2017 as a result of declines in several industries including oil and gas; construction; wholesale and retail trade; and professional, scientific and technical services. By comparison, real GDP for the province as a whole is expected to fall by 3.8 per cent. Total oil production in the province is expected to be 70.8 million barrels in 2017, a decrease of 8.3 per cent (or 5.9 million barrels) from 2016.

Investment associated with major project development is expected to be lower than 2016 but will continue to generate substantial economic activity in the region.

LABOUR MARKET

Employment in the St. John's CMA is forecast to decline by 2.1 per cent in 2017 and the labour force is expected to fall by 1.7 per cent. Since the labour force is shrinking at a slower rate than employment, the unemployment rate in the St. John's CMA is forecast to increase by 0.3 percentage points to 8.1 per cent.

POPULATION

Despite the slowdown in the local economy, the St. John's CMA population should continue to benefit from historically high levels of international migration. The population of the St. John's CMA is expected to continue to grow in 2017 to 218,600 persons, an increase of 0.5 per cent compared to 2016.

HOUSEHOLD INCOME & HOUSING

Lower employment is expected to result in a decline in household income of 1.3 per cent. In addition, uncertainty created by low oil prices and the province's fiscal deficit is expected to continue to negatively affect consumer and business confidence. As a result, retail sales are forecast to decrease by 0.9 per cent to $3.9 billion in 2017 and housing starts are expected to decrease by 7.0 per cent to 775 units.

ECONOMIC INDICATORS

	2016e	2017f	% Change
Real GDP (2007$M)	13,076	12,629	-3.4
Employment (000s)	116.4	114.0	-2.1
Labour Force (000s)	126.3	124.1	-1.7
Unemployment Rate	7.8%	8.1%	0.3 ppts
Participation Rate	69.6%	68.1%	-1.5 ppts
Household Income ($M)	10,889	10,752	-1.3
Retail Trade ($M)	3,947	3,912	-0.9
Housing Starts	833	775	-7.0
CPI (2002=100)	132.2	136.1	2.9
Population (000s)	217.5	218.6	0.5

Source: Statistics Canada; Economic and Project Analysis Division, Department of Finance, Government of Newfoundland and Labrador.

e: estimate; f: forecast

ST. JOHN'S

Prepared by the Government of Newfoundland and Labrador (Economic and Project Analysis Division, Department of Finance) and the City of St. John's (Economic Development, Culture and Partnerships Division, Department of Community Services).

2016 PERFORMANCE

ECONOMY

Economic conditions in the St. John's CMA continued to be impacted by relatively low commodity prices and reduced major project development activity in 2016. Real GDP – which is influenced by the rise and fall of oil production – increased by 4.7 per cent, primarily due to higher oil output. However, this growth did not create corresponding increase in other economic indicators. Employment, income and retail sales growth were positive, but relatively weak compared to recent years and housing starts declined significantly. Real GDP, excluding oil production, is estimated to have fallen by 0.9 per cent.

LABOUR MARKET

Labour market performance in the St. John's CMA was mixed in 2016. Employment grew in several industries including trade; health care and social assistance; and accommodation and food services. These gains offset declines in other industries including oil and gas; construction; manufacturing; professional, scientific and technical services; and educational services. Overall, employment in the St. John's CMA increased by 0.4 per cent (or 500) to 116,400 in 2016 and the labour force grew by 1.9 per cent to 126,300. Since labour force growth was greater than employment growth, the unemployment rate increased by 1.3 percentage points to 7.8 per cent. Despite this increase, the St. John's CMA unemployment rate remains relatively low in historical terms and is comparable with other CMAs in Atlantic Canada.

POPULATION

In 2016, the St. John's CMA is estimated to have recorded an annual population increase for the 18th consecutive year. Gains resulted from natural growth (more births than deaths) and net in-migration to the region. As of July 1, 2016, the population of the St. John's CMA is estimated to have been 217,500, up 1.5 per cent from the previous year.

HOUSEHOLD INCOME & HOUSING

Household income grew by 1.4 per cent in 2016 to $10.9 billion, driven by wage gains and increased government transfers; however, this growth was significantly lower than the previous five year average of 5.6 per cent. The slower growth in household income was reflected in retail sales which at $3.9 billion in 2016 were only 1.3 per cent higher than the previous year's level. Housing starts fell by 15.4 per cent to 833 units as starts in single detached units and apartments experienced significant declines.

RESIDENTIAL AND COMMERCIAL REAL ESTATE MARKETS

ECONOMIC EXPANSION

The St. John's CMA economy experienced significant changes since 2007. Between 2007 and 2012, employment increased 21.1 per cent (or about 20,200 positions), the population grew 10.6 per cent (or nearly 20,000 persons), and household income rose over 40 per cent as a result of employment growth and higher salaries and wages. This changing economic landscape put upward pressure on the demand for both residential housing and commercial office space in the St. John's CMA. In terms of the residential real estate market, this demand growth resulted in a large increase in the number of properties sold and their associated sales prices. The annual number of housing starts in the area averaged 1,823 between 2007 and 2012, representing an increase of 26.8 per cent compared to the annual average of housing starts for the previous six years. There was also a surge in both new construction and renovation of existing office space to meet the demand for office space from oil companies and firms that support oil companies in the St. John's CMA.

RECENT SLOWDOWN

However, economic conditions in the St. John's CMA softened in recent years. Employment, population and household income all continued to grow between 2013 and 2016, but at slower rates than they did between 2007 and 2012. These changes resulted in a lower demand for residential housing and commercial office space. The average annual number of housing starts in the St. John's CMA fell to 1,196 in the four years between 2013 and 2016, a decrease of 34.4 per cent compared to the annual average of housing starts between 2007 and 2012. Following two consecutive years of declines, the average residential sales price in the St. John's CMA was $307,322 in 2016, down 5.7 per cent from the 2014 peak.

The overall residential vacancy rate in the St. John's CMA increased steadily since 2008, reaching 7.9 per cent in 2016. This upward trend in the vacancy rate could partially be attributed to the recent growth in the supply of new apartments.

Source: Canada Mortgage and Housing Corporation

Of the 3,815 apartment units available in the St. John's CMA rental market as October 2016, 943 (almost 25 per cent) have been added since the second half of 2012. By comparison with other Atlantic CMAs, the overall residential vacancy rate in 2016 was lower in Halifax (2.6 per cent) and Moncton (6.0 per cent), but higher in Saint John (8.5 per cent).

The average rent in the St. John's CMA rose every year between 2007 and 2016 despite the increasing residential vacancy rate because a growing share of the rental units were in newer buildings which charge higher rents than units in older buildings. In October 2016, the average monthly rent for a two-bedroom apartment in the St. John's CMA was $958, up from $923 in October 2015. The average rent for a two-bedroom apartment in 2016 was higher in Halifax ($1,063), but lower in Moncton ($798) and Saint John ($720).

The total inventory of office space in the St. John's CMA increased 26.3 per cent (over 782,000 square feet) between the end of 2012 and the first quarter of 2017. As a result, the office vacancy rate in the St. John's CMA grew from 3.7 per cent in the first quarter of 2012 to 19.8 per cent in the first quarter of 2017. However, much like the residential rental market, the average rental rate for office space remained high even though the vacancy rate was rising because an increasing share of office space was in new "Class A" buildings which commanded higher rents than older buildings. In the first quarter of 2017, the average rental rate was $34.95 per square foot (psf), down slightly from $35.09 in the first quarter of 2016. By comparison, the office vacancy rate in Halifax was 15.8 per cent in the first quarter of 2017 and the average rental rate was $27.59 per square foot.

Source: Cushman & Wakefield Atlantic

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